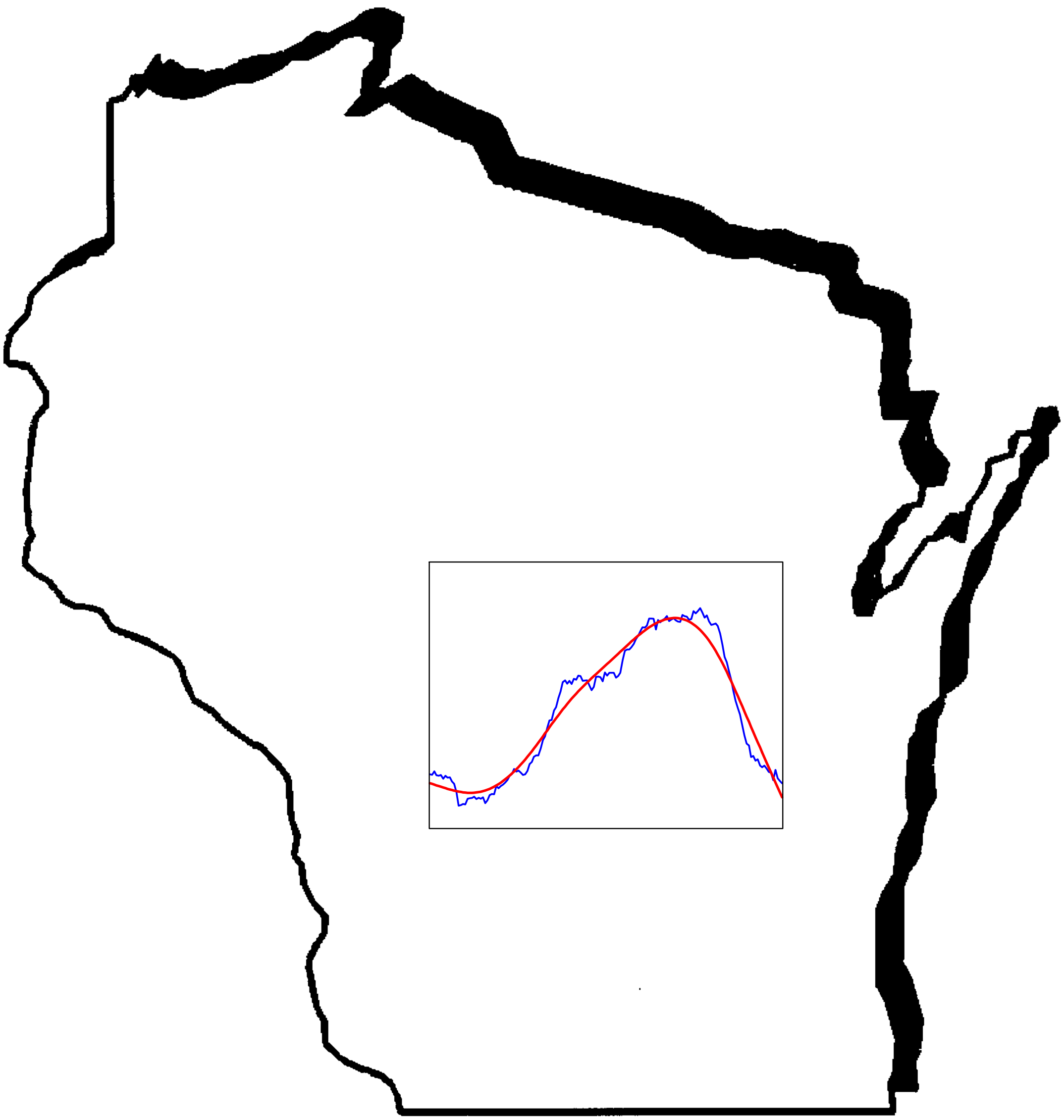
WISCONSIN ECONOMIC OUTLOOK



Wisconsin Department of Revenue
Division of Research and Policy

March 1, 2006

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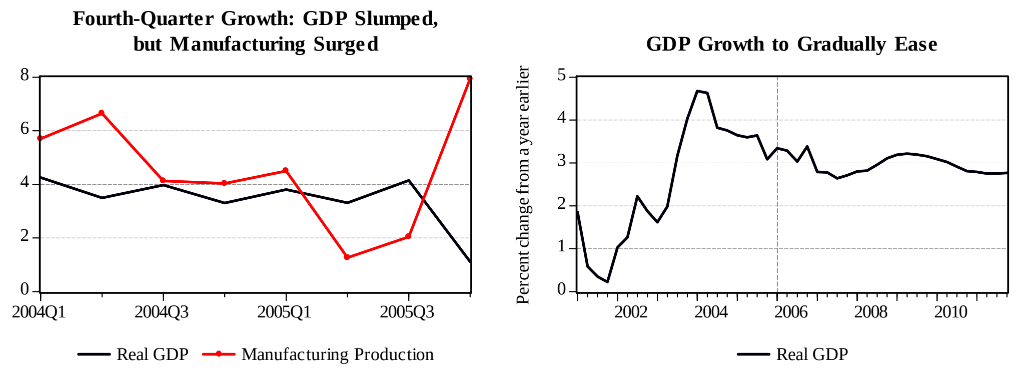
This is a regularly scheduled quarterly economic outlook released by the Wisconsin Department of Revenue. The Division of Research and Policy, Wisconsin Department of Revenue prepared the Wisconsin forecast. Global Insight, Inc. prepared the national forecast on February 6, 2006. The forecast does not incorporate data released subsequent to that date.

I. ECONOMIC OUTLOOK

U. S. OUTLOOK

Economists forecast continued, yet decelerated economic growth through 2007, where GDP is estimated to see gains at 3.3% in 2006 and 2.7% in 2007. Despite fourth quarter GDP growth of 1.1% versus the expected 3%, Global Insight expects a bounce back to 4.8% in the first quarter of 2006. A gradual easing of the economy will continue as the housing markets cools. Inflation risks suggest that the Federal Reserve has not finished raising interest rates. Global Insight expects one more hike in the federal funds rate, to 4.75%, at the end of March, followed by an extended pause.

Chart I.1



The Forecast in Brief

The drop in GDP growth to 1.1% in the fourth quarter of 2005 greatly overstates the deceleration anticipated for the economy. Global Insight expects a bounce-back to 4.8% growth in the first quarter, and GDP growth in 2006 to be solid, at 3.3%, down from 3.5% in 2005. Growth is likely to slow beyond the first quarter, though, as the housing market cools, setting the stage for a below-trend 2.7% growth rate in 2007.

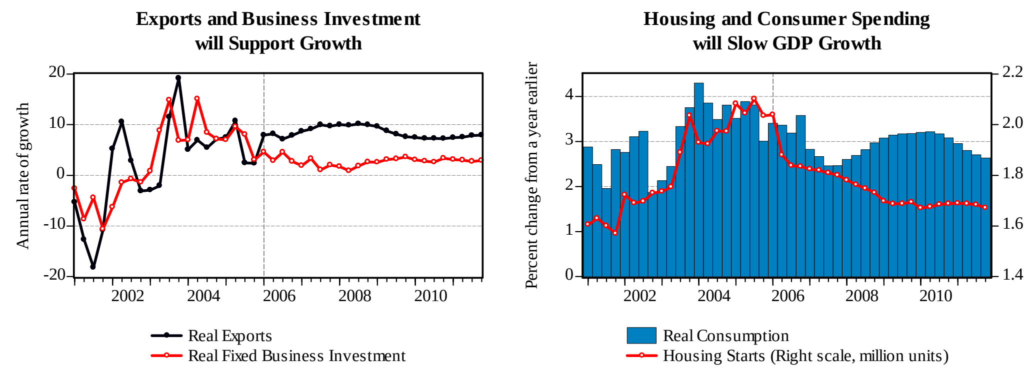
The 1.1% fourth-quarter growth rate was surprisingly low, relative to expectations of 3%. Timing quirks seem to have depressed government spending but that was not the whole story. And while consumer spending growth was weak, that was no surprise due to a big payback in car sales following the third-quarter incentives. Spending on other consumer goods and services actually accelerated; however, business fixed investment, inventories, and exports all came in weaker than anticipated.

The extent of the slowdown is puzzling, because other indicators of overall activity do not show similar trends. Production-based indicators like industrial production were up sharply, rebounding after the third quarter's hurricanes and Boeing strike, even though energy production was down. Manufacturing growth hit a six-year high of 7.9%. It may be that the industrial production data (which come mainly from direct measures of output) better capture the swings in activity caused by the hurricanes than the GDP data (where output is derived from spending data, combined with hard-to-measure inventory fluctuations).

While housing market indicators continue to soften, recent evidence does not show a broad-based deterioration consistent with a sudden loss of growth momentum. Manufacturing still looks solid, although the ISM index has eased back a little after post-hurricane bounces. Record warm weather has meant that the hit from high heating bills has not been as large as feared, and it also encouraged shoppers to go out. The labor market continues to show improvement, with 193,000 jobs added in January and the unemployment rate dipping to 4.7%. True, abnormally warm weather helped construction jobs but that was not the whole story.

Consumer spending ended the fourth quarter much more strongly than it began and with January also looking strong. Global Insight anticipates a 5.1% growth rate for the first quarter. Government spending is likely to bounce higher, and exports and business fixed investment are projected to strengthen (the latter helped by hurricane reconstruction).

Chart I.2



Beyond the immediate quarterly gyrations, we can expect a gradual slowdown in GDP growth, as the housing market, the key driver of the current expansion, cools in the face of overextended prices and higher interest rates. New home sales, existing home sales, and builder confidence have all shifted down, as rapid price gains have made houses less affordable for the average buyer.

The slowdown in the housing market should lead, in turn, to a gradual increase in the household saving rate, which slows consumer spending growth, as households realize that they cannot rely on house price increases to keep building wealth. The saving rate is now below zero, for only the second time since World War II. This suggests that some rebuilding of savings is likely, especially if the home-equity pump from the housing market loses force. Business fixed investment spending (spurred by higher utilization rates) may dampen the slowdown, but will not prevent it. Corporations had plenty of cash to fuel a double-digit jump in business equipment spending during 2005, and Global Insight expects nearly the same in 2006. Still lagging behind, nonresidential construction spending should finally rebound this year, helped by post-hurricane rebuilding. Drilling activity will be boosted by still-high energy prices.

KEY FORECAST ASSUMPTIONS

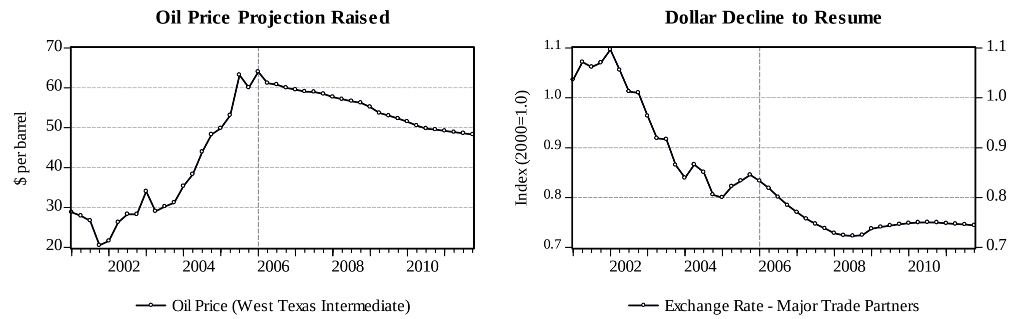
Oil Prices Projection Raised. High oil prices remain a cloud over the global economy, with jangled nerves over Iran's nuclear ambitions sending prices into the high $60s per barrel. Tight demand/supply fundamentals will keep the market vulnerable to actual and feared supply disruptions.

Natural Gas Prices See Warm Weather Relief. The unseasonably warm winter has driven natural gas prices down. The forecast assumes the Henry Hub price for natural gas to average $8.49 per million Btu in the first quarter (rather than $11.99 in the November forecast, although this is still 33% above a year ago), and $10.12 in late 2006.

One More Fed Rate Hike. Global Insight assumes one more 25 basis points hike that takes the federal funds rate to 4.75% as of March 28, 2006, followed by an extended pause.

Dollar Decline to Resume. The dollar strengthened against most currencies in 2005, but the drag from the current account deficit will reassert itself in 2006, especially after the Fed stops tightening. The forecast assumes a 7% depreciation against major currencies during 2006 (fourth quarter-to-fourth quarter basis), reaching rates of $1 .32/euro, 102 yen/dollar, and C$ 1.14/dollar at year-end, and a further 6% decline against major currencies during 2007. China began the process of renminbi revaluation with a small 2.1% move in July; Global Insight expects its future moves will be incremental. Over the next 12 months, the Chinese currency should appreciate another 2.5% against the dollar.

Chart I.3



Tax Burden to Rise. Global Insight does not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled. But it also assumes that Congress will tinker enough to raise federal personal income tax receipts, back toward their historical average of 8.2% of GDP. For 2006, the forecast assumes another temporary "fix" that will prevent the individual Alternative Minimum Tax (AMT) from raising the tax burden. Thereafter, we assume that the President and Congress will prevent the AMT from kicking in strongly, but that they will gradually broaden the income tax base in order to make up the lost revenues.

Hurricane Destruction. The Bureau of Economic Analysis' estimates of the damage from hurricanes Katrina and Rita imply $92 billion (0.7% of GDP) in damage to the stock of private capital. The forecast assumes $92 billion in federal government spending in response to the storms, spread over several years. This represents $59 billion in spending by FEMA (including $23 billion in flood insurance), $25 billion in funding for infrastructure and equipment spending, and $8 billion in current spending by other agencies and the military. It is also assumed, an extra 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable.

DETAILS OF THE U.S. OUTLOOK

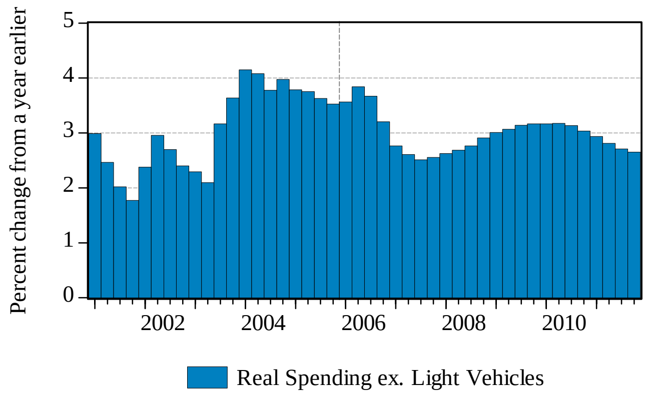
Consumption

Real consumption growth will moderate from 3.6% in 2005 to 3.4% this year and 2.6% in 2007. Support from rising employment and real incomes will be offset by higher interest rates and a cooling housing market. Higher interest rates and a legacy of heavy mortgage debt accumulation will push the household financial obligations ratio to new heights in 2006–08.

The expansion in real consumer spending is entering its 15th year with strong momentum, although a slowdown is likely once housing markets cool and households resume saving. Real consumption growth is expected to pick up from a 1.1% annual rate in the final quarter of 2005 to a 5.1% pace in the first quarter of 2006, as light-vehicle sales rebound from depressed post-Katrina levels. Excluding light vehicles, real spending increased at a solid 4.0% rate in the fourth quarter and should improve on this performance in early

2006. January was a banner month for retailers, as unseasonably warm weather and holiday gift card redemptions drew shoppers to stores. Solid gains in employment and a moderation in energy prices are boosting real disposable income, the main driver of consumption.

Chart I.4
Consumer Spending Growth will Slow



Rising interest rates, a cooling housing market, and fewer mortgage refinance cash-outs will soon begin to restrain spending. This deceleration will be concentrated in spending on goods, while real growth in services proceeds at a steady 3% pace. After an extended climb, home sales and construction are projected to decline over the next four years, curbing spending on furniture, appliances, and home decorating. Meanwhile, existing home price inflation is projected to subside from 9.3% in the past two years to just 2.5% from 2005 to 2007. With interest rates rising, households will no longer be able to fund their major purchases through mortgage refinance cash-outs. Home equity extraction amounted to about 7.0% of disposable income in 2004–05, compared with an average of 1.8% in the 1990s.

Heavy mortgage and home-equity debt accumulation in recent years, coupled with rising interest rates, will lead to some deterioration in household finances. The Federal Reserve's household financial obligations ratio is projected to rise from 18.4% of disposable income in 2005 to 19.1% this year and hit a peak of 20.1% in 2008, before improving. Obligations include debt service, rent on primary residences, auto lease payments, property taxes, and homeowners' insurance. The financial obligations ratio, which is highly correlated with loan delinquency rates and personal bankruptcy rates, is a good measure of financial stress. As it climbs to new heights over the 2006–08 periods, we expect households to save an increasing portion of their disposable income and thus restrain spending on discretionary items.

Thanks to mild winter temperatures, replenished oil and gas storage levels, and additional LNG (Liquefied Natural Gas) imports, energy prices have retreated from their winter peaks. After three years of rapid price escalation, a stabilization or gradual decline in energy prices will bring some relief to consumers, particularly those in lower income brackets. The share of household disposable income spent on energy, which climbed from 4.2% in 2002 to 6.0% in the second half of 2005, is projected to recede to 5.6% this year and 4.6% by 2010. With energy inflation subsiding and labor markets tightening, wage gains will outpace consumer price inflation for the first time since 2003, providing support to spending on nondurable goods and services.

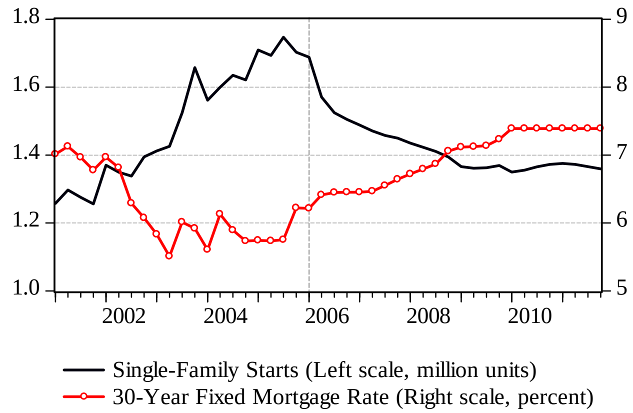
Housing

January 2006 was the warmest January since at least 1895. When the weather warms up in January, the coldest month of the year, the ground softens, making it easier to pour concrete. More houses, thus, get started. Therefore, the mild weather will raise January's housing statistics, but lower those for February and March. Early evidence is showing this to be the case. Nearly one-quarter of the 193,000 jobs created in

January were construction jobs. Mortgage applications were also up in January (although much of the strength came from refinancing, as borrowers switched from variable to fixed mortgage rates).

How much of a boost will the weather give housing? Because cold and rainy weather held starts down in December and January was so warm, housing starts may increase more than 10%. The kick to home sales might also be substantial. However strong the numbers turn out to be, do not be misled by them. The good weather means that houses that would have been started or sold in February or March were instead started or sold in January. The housing market will continue to slow, no matter how strong January's numbers turn out to be.

Chart I.5
Housing has Peaked

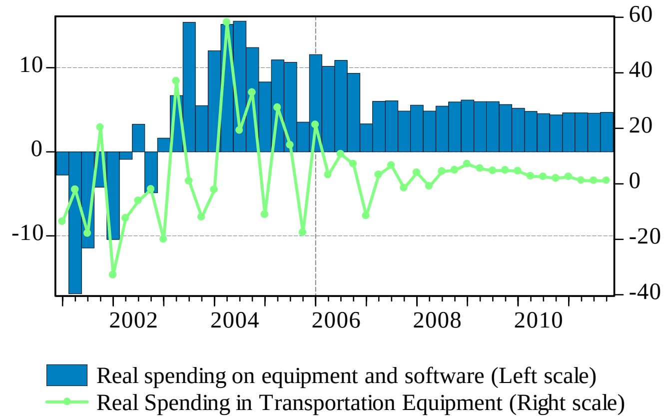


New and existing home sales peaked in the third quarter of 2005. Global Insight expects home sales to gradually decline through the end of 2008. The average price of a single-family home rose 7.0 % in December (year-over-year). This was the slowest rate of increase in 23 months. Starts are projected to decline by 168,000 units, while real residential construction investment declines by 3.1%. Single-family starts will fall for the next three years, reversing the boom with declines of 8.2% in 2006, 6.7% in 2007, and 3.5% in 2008. With housing starts in decline, single-family residential investment will become a drag on the economy. Spending on multi-family construction will also slip, but will rebound earlier than single-family investment because of less overbuilding.

Business Investment

Real spending on equipment and software grew only 3.5% (annual rate) in the fourth quarter, after growing at double-digit rates in six of the previous seven quarters, and it is expected to climb 9.4% in 2006. A 17.7% drop in transportation equipment held the numbers down. In the fourth quarter, real spending on aircraft plunged 65.9% to a nine-year low, while spending on light vehicles dropped nearly 19%. But the fourth-quarter drop in the volatile transportation category is not worrisome. Boeing continues to ramp up production and should produce more airplanes in 2006 than in 2005. Moreover, the weak light-vehicle spending is partly a payback for strong second and third quarters. In addition, new Environmental Protection Agency regulations taking effect in 2007 will boost spending on heavy-duty trucks during 2006, but then depress spending in 2007. In the forecast, spending on transportation equipment rebounds smartly, climbing 21.1% in the first quarter and 6.7% for the year.

Chart I.6
Real Spending in Equipment and Software will Climb 9.4% in 2006
Spending in Transportation Rebounds Smartly
(Percent change from a year earlier)



Communications equipment also had a rough fourth quarter, falling 8.2% in real dollars. But this volatile series tends to track spending on computers over time, and should rebound in the first quarter. In the forecast, spending on information technologies rises 12.4% in 2006, about the same rate as in both 2004 and 2005. All three high-tech components (software, computers, and communications equipment) post robust numbers in 2006.

The remaining two categories posted respectable fourth-quarter numbers. Spending on industrial equipment advanced 10.5%, thanks to strong gains in general industrial equipment and metalworking machinery. "Other" equipment investment grew 5.1%. The surprise here was the 50.9% decline in spending on mining and oilfield equipment. The equipment on the oil rigs destroyed by hurricanes Katrina and Rita have apparently yet to be replaced, so this category should rebound in 2006. In the forecast, spending on industrial and "other" equipment grows 6.8% and 5.9%, respectively, in 2006. These are about the same growth rates posted in 2005. Afterward, growth in both categories slows as the economy settles to trend growth.

Real nonresidential construction will increase 8% in 2006, driven by a 19% jump in mining and petroleum structures. Office construction grew 16.5% (nominal) in the second half of 2005, gathering considerable strength as the year ended. Commercial construction also accelerated in the fourth quarter, growing a nominal 2.5% in November and 2.6% in December, and 26.5% in the second half. It is too early to tell, though, how much of the recent surge in commercial construction is related to Katrina. In the forecast, real spending on commercial construction grows 3.3% in 2006 and 9.2% in 2007.

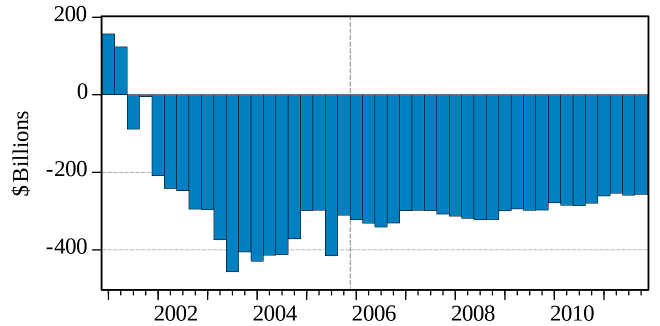
The wellhead natural gas price averages $8.30 per million Btu in 2006. This lower price accounts for a downward revision to the forecast for mining and petroleum structures, which grows 19% in 2006. In total, nonresidential construction will increase 8.0% in 2006 and 8.3% in 2007. The numbers tail off after 2007, though, as the stimulus from hurricane reconstruction goes away.

Government

The hurricanes, plus the launch of the unfunded Medicare prescription drug program, will bring to an end, at least temporarily, the improvement in federal government finances. Global Insight expects the federal budget deficit to widen to $367 billion in fiscal 2006, from $319 billion in fiscal 2005, still below the White House projection of $423 billion.

Government spending was pulled down in the fourth quarter of 2005 by a sharp anomalous decline, perhaps related to delayed procurement contracts in federal defense spending; this decline in defense spending shaved about 0.7 percentage point from GDP growth, but should be reversed in the first quarter of 2006. This will push the federal deficit up about $50 billion in fiscal 2006 to $367 billion. The deficit unwinds slowly from 2007 to 2010, ending the decade just above $300 billion.

Chart I.7
Federal Government Deficit



Federal non-defense spending accelerated, as expected, from 2.4% in the third quarter to 6.9% in the fourth, driven up by spending increases in Homeland Security (FEMA) for hurricane relief and construction.

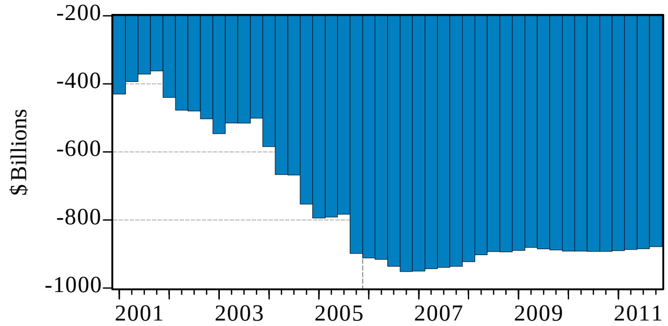
Global Insight's estimates and projections for hurricane relief and reconstruction have been updated, based on recent legislation (a defense and emergency spending bill on December 21, 2005) and January 2006 estimates of the distribution of spending by the Congressional Budget Office. The total spending package, which is spread over about four years, has been scaled back slightly. The forecast is now assuming about $93 billion in total spending (compared to the November baseline of about $110 billion), based on additional, but not yet enacted, emergency appropriations of about $10 billion.

The distribution of federal spending has been adjusted as well. The adjusted distribution assumes higher transfers to persons, higher flood insurance, and higher defense spending. Federal consumption spending has been scaled back, as have the projections for subsidies and capital transfers to state and local governments. Federal spending on hurricane relief and reconstruction is expected to push the federal deficit up about $50 billion in 2006, (to $367 billion), about $25 billion in 2007 (to $309 billion), and $18 billion in both 2008 and 2009.

International Trade

Export growth disappointed in the fourth quarter, but is expected to rebound to high single-digit growth in the first half of 2006. There have been encouraging recent signs of economic improvement in the Eurozone, Japan, and the rest of Asia led by China. The dollar appreciated during 2005 based on a rising interest rate differential in favor of U.S. assets, but Global Insight still believes its long-term path is downward, due to the large and still-widening trade gap. The current-account deficit will get worse before it gets better, rising through 2007 to $940 billion, up from $817 billion in 2005, before stabilizing around $880 billion. It falls as a share of GDP, however.

Chart I.8
Current Account Deficit will get Worse Before It gets Bettter



The December 2005 trade deficit of $65.7 billion was a deterioration from November's $64.7 billion shortfall, its third-worst level on record. The full-year 2005 deficit surged to $725.8 billion, from $617.6 billion in 2004, with the nation's rising oil-import bill accounting for 66% of the $108.2 billion deterioration. Oil was not the cause of December's deterioration, as the U.S. oil tab shrank $1.1 billion on lower prices. Non-petroleum imports surged by $4.3 billion, as consumer goods imports rose $1.8 billion and non-oil materials and supply imports increased $1.2 billion. Three-fourths of the advance in non-oil materials and supply imports was in metals and metal-making raw materials, while pharmaceutical preparations accounted for one-fourth of the growth in consumer goods imports. On the export side of the ledger, aircraft deliveries dropped $1.1 billion in December, masking a larger gain in exports of other capital goods.

An export revival appears imminent after a sluggish second-half 2005. Real exports grew at less than a 2.5% annual rate in the second half of 2005, well below the 9% pace in the first half. The Boeing strike made matters worse, but part of the problem was hurricane related. Real chemical exports fell about 10% (not annualized) from the three months before the storms to the three months ending in November, as chemical production facilities were damaged by the storms and domestic demand for chemicals surged when broader industrial production rebounded. By December, supply conditions had improved and chemical exports were almost halfway back to their pre-storm levels. Storm damage also depressed late-2005 cotton exports, after an exceptionally strong July. Service exports dipped on sluggish travel and tourism, as well as a drop in military transfers. Soggy exports appear to be a temporary phenomenon, however. The two-month average of the ISM export orders index for manufactured goods sank to a two-year low in June 2005, but has since revived to levels consistent with solid export growth.

The oil bill (and trade deficit) is expected to be bad in the first quarter of 2006, but should then improve. The first-quarter oil bill is likely to exceed the fourth-quarter bill. While peak prices were not exceeded when oil prices rallied in January, average prices for the first 40 days of the first quarter exceeded fourth-quarter 2005 prices. Import volumes will remain high through the current quarter as domestic Gulf of Mexico production struggles, but beyond the first quarter, both the prices and volumes of oil imports should be lower.

The expected 2006-dollar weakness should lift exports and restrain imports in both 2007 and 2008. The annual current-account deficit for 2004 totaled $668 billion. Oil and other goods imports pushed the 2005 shortfall to $817 billion, and the 2006 deficit will rise to $929 billion. The 2007 current-account deficit will total $942 billion, but 2008 should show the first calendar-year improvement, with a $903 billion shortfall. From 2009 to 2011, the current-account deficit averages $887 billion.

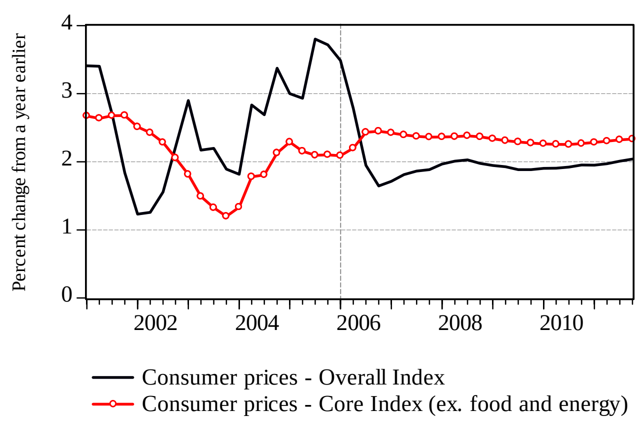
Inflation

The headline CPI rate has fallen, with gasoline prices well below their peak, but the key question is what will happen to "core" inflation (excluding food and energy) over the next few months. Tighter industrial utilization rates and a lower unemployment rate are creating some upside risks for inflation. The surprisingly low productivity growth in the final quarter of 2005 will rebound this year and restrain unit labor costs. Labor markets continue to tighten, though, placing upward pressure on labor compensation. Thus, core CPI inflation can be expected to creep up from 2.2% in 2005 to 2.3% in 2006. In combination with an anticipated bounce in GDP growth, this suggests that more Federal Reserve tightening is required.

New Fed chairman Bernanke has a free hand to set rates as he wants. The Fed's language now indicates only that further tightening "may" be required, but the Fed is unlikely to stop quite yet. Global Insight expects at least one more 25 basis point hike, taking the federal funds rate to 4.75% at the end of March, before an extended pause. Such a move has the ancillary benefit of signaling the Bernanke regime's commitment to low and stable inflation, further increasing the likelihood of a March increase. Ten-year bond yields have edged back up to 4.5%, and Global Insight also expects to see a further rise in yields in coming months, approaching 5.0% by year-end.

Although headline consumer and producer price inflation measures during the fourth quarter of 2005 reflected the considerable changes in energy prices, measures of core inflation (which exclude the volatile energy and food components) have remained largely immune to roiling energy markets. After a 0.1 percentage point uptick to 0.2% in October (and after slumbering for five consecutive months at 0.1%), the monthly core CPI inflation rate has lingered there since.

Chart I.9
Core Inflation will Remain at 2%-Plus



The price index for personal consumption expenditures (PCE) evinces the same pattern for core inflation: the core PCE index rose at a seasonally adjusted annual rate of 2.2% in the fourth quarter of 2005, after rising 1.4% in the third quarter. On a fourth quarter-to-fourth quarter basis, core PCE inflation dropped into the upper-end of the Fed's presumptive target range of 1-2%, from 2.2% in 2004 to 1.9% in 2005.

The forecast features a fairly flat inflation profile in 2006, with core PCE inflation registering seasonally adjusted annual rates of 2.1% and 2.2%, respectively, in the first and second quarters and 2.3% in each of the final two quarters. Fourth quarter to fourth quarter, core PCE inflation registers 2.2% in 2006, up from 1.9% in 2005. The long-term outlook is good, with year-over-year core PCE inflation remaining below 2.4% throughout the 10-year forecast horizon.

Although it spills over new Fed chairman Bernanke's preferred range of 1-2%, the 2006 and 2007, the outlook for core PCE inflation is also good, considering the maturity of the current business expansion that began early in 2001. It is a well-established fact that labor markets tighten as economic recoveries progress, thereby placing upward pressure on labor compensation. An unusually slow pace of hiring in the early stages of the current expansion has left room for further labor market tightening before upward pressure on wages and salaries become severe.

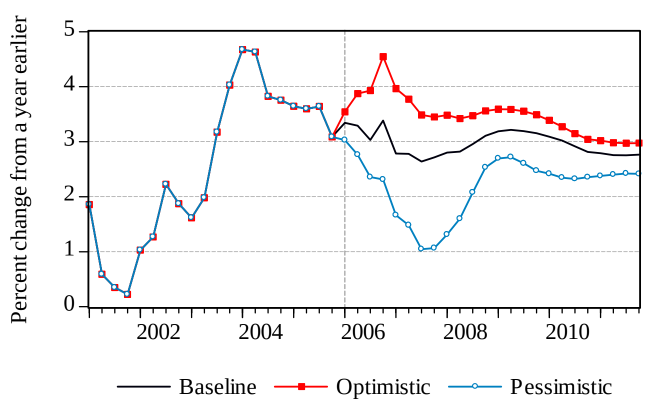
The calm in the 2006 core inflation outlook is only marginally compromised by the 3.4% (SAAR) fourth-quarter 2005 jump in unit labor costs, following respective declines of 1.3% and 0.3% in the second and third quarters. The sudden increase in labor costs, however, is the result of surprisingly low fourth-quarter real GDP growth (1.1%, SAAR), coupled with a decline in labor productivity (0.6%, SAAR), and not an acceleration in employee compensation. The Bureau of Labor Statistics' employment cost index rose at a seasonally adjusted rate of 0.8% in the fourth quarter of 2005, duplicating the third-quarter increase.

Given that it is expected that growth in both real GDP and labor productivity will bounce back vigorously in the first quarter of 2006, to 4.8% and 3.6%, respectively, unit labor costs should remain nearly flat in the first quarter. The forecasted 2.3% rise in labor productivity this year helps to restrain rising unit labor costs in the face of tightening labor markets.

RISKS TO THE FORECAST

Labor productivity in the fourth quarter of 2005 fell for the first time since the first quarter of 2001. The reasons for the drop are puzzling. Did workers suddenly decide to coast at the end of last year? One view is that measurement problems may have distorted the numbers, and that productivity will bounce back strongly in the first quarter of 2006. Still, the underlying rate of productivity growth has slowed. In the forecast, productivity grows about 2.4% over the next 10 years. This is below the sizzling 3.7% average achieved from 2001 to 2004 (but still above the 2.1% average of the past 50 years).

Chart I.10
Alternative Growth Path for Real GDP



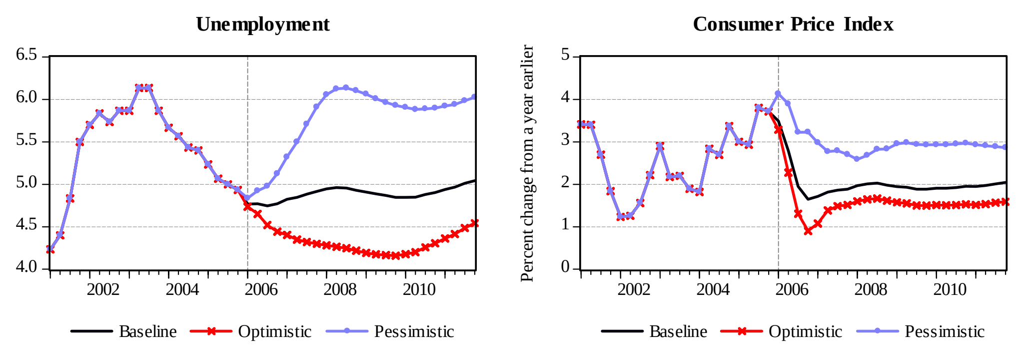
An argument could be made that the baseline forecast is too low. Many economists in academia believe that the productivity boom may last another decade, if not longer. Their premise is that the contribution that information technologies have made to productivity has yet to run its course. The optimistic scenario incorporates this view. The driving force behind this is a pickup in multi-factor productivity growth. This alternative forecast also focuses on the momentum being created by the investment recovery. As the decade-long expansion of the 1990s showed, once an economy gets up a head of steam, it is difficult to slow it down. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever.

The pessimistic scenario focuses on the upward pressures on global commodity prices, notably for energy, and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a housing bubble that ends inauspiciously. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end. Indeed, as the 1970s demonstrated, economic malaise is difficult to shake as well.

The Optimistic Scenario: Growth Surges Higher Again (20% Probability)

Six assumptions distinguish the optimistic scenario from the baseline forecast. First, total factor productivity, a concept that roughly measures how innovations augment economic growth, is stronger. Underlying this assumption is the view that the information-driven technology boom, which may have accelerated in recent years, continues. Productivity is a panacea. In the optimistic scenario, it is the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the base-line. It is also one reason why the dollar is stronger. In conjunction with productivity gains, the stronger currency will help contain inflation.

Chart I.11



Second, foreign economic growth is stronger. Although it can have a few side effects, such as commodity price inflation, foreign economic growth is also potent medicine. A stronger world economy boosts U.S. exports and strengthens domestic manufacturing. In this scenario, both developing and industrialized economies grow faster than in the baseline. As a result, after 2005, exports grow faster in every year but one during the forecast period despite a stronger dollar.

Third, business investment is stronger. Today's level of business spending is below average by historical standards. In 2005, business fixed investment accounted for 10.6% of GDP, almost a full percentage point below the average over the past 25 years despite strong fundamentals, namely, an economy growing faster than trend and low interest rates. In this scenario, business spending (particularly on equipment and software) is much higher than in the baseline throughout the forecast period. By 2010, for example, it accounts for 12.2% of GDP, compared with 11.2% in the baseline.

Fourth, the federal government budget deficit in the optimistic scenario is lower than in the baseline. As the U.S. economy performs better, tax revenues increase and federal transfer payments decrease, leading to smaller deficits. Also contributing to a smaller deficit are lower interest rates, which result in lower federal interest payments.

Fifth, housing starts are stronger. The main factors driving starts up in the optimistic scenario are better job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run about $7.50/barrel lower than in the baseline, and wellhead natural gas prices about 7.5% lower.

The optimistic scenario assumes a very strong bounce-back to 5.6% growth in the first quarter of 2006, compared with the baseline's 4.8% growth. In 2006, growth averages 4.0%, versus 3.3% in the baseline. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and faster productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline value. Since productivity gains are stronger, potential GDP is higher and remains so throughout the forecast period. Job growth is also stronger, keeping the unemployment rate below its baseline rate over the forecast period.

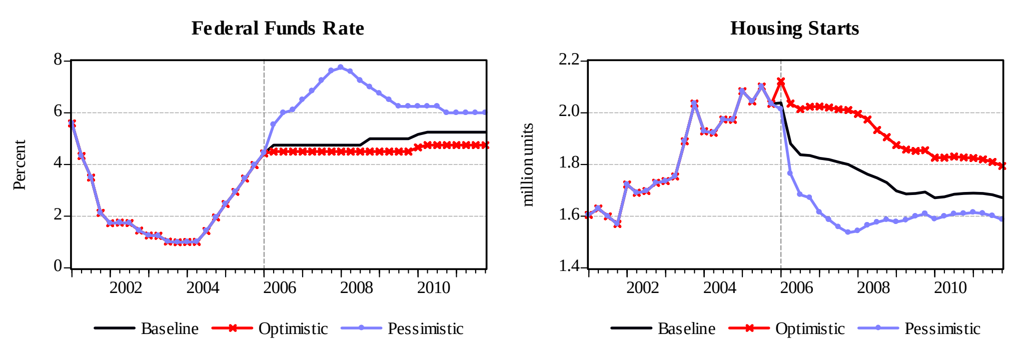
The Pessimistic Scenario: Stagflation (25% Probability)

After a quarter-century of declining inflation, signs of a reacceleration are emerging. A doubling of oil prices, a downtrend in the dollar, two-and-a-half years of accommodative monetary policy, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains, together with its “measured” tightening, to keep inflation at bay, but perhaps this is too sanguine a view.

The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the pessimistic alternative, core inflation keeps gathering momentum, reaching 3.0% by mid-2006. The Fed responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 6.11% in the fourth quarter of 2006, compared with 4.75% in the baseline.

Chart I.12



This simulation also has a housing price bubble that ends dramatically. The average price of existing single-family homes rises 18% above the baseline average by the second quarter of 2006, but then the bubble bursts. In the second quarter of 2007, the average price tumbles more than 20% below its year-earlier value, and then stays below its baseline value throughout the forecast period. Housing starts tumble to 1.57 million units in 2007, compared with 1.81 million in the baseline forecast.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes, but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation, and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate at 6.1% and the federal funds rate at 7.75%, the Fed decides to hold. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The economy does not sink into recession in the pessimistic alternative, but merely fails to come as close to its potential as in the baseline, with GDP growth coming in 0.7 percentage point below the baseline rate in 2006 and 1.4 percentage points below it in 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 5.0% below its baseline level at the end of 2016.

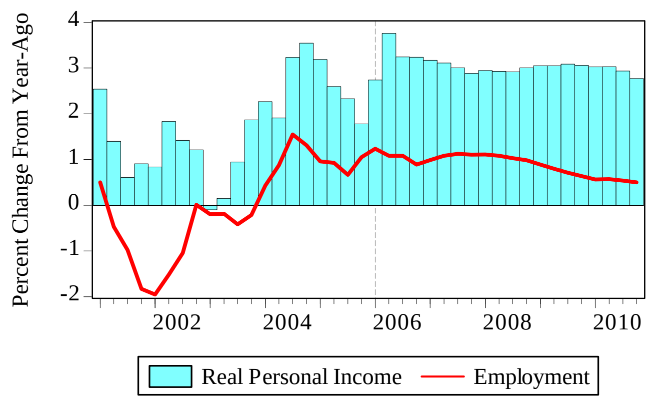
A summary of the U.S. forecast is contained in Appendix 1.

WISCONSIN OUTLOOK

Wisconsin and the rest of the nation are now transitioning into a phase of the business cycle where growth will be sustained by business investment and net exports, rather than by consumer and government outlays. Consumers are constrained by debt burdens from past spending, and a slow-down in housing price appreciation. Governments are constrained by tight budgets. Businesses are reaching a point of capacity utilization where new investment is necessary for additional business growth. The size of the U.S. trade deficit suggests that the dollar should weaken against the currencies of our trading partners, providing an impetus for further export growth.

Given this backdrop, Wisconsin's economy is expected to exhibit neither boom nor bust over the next few years. Growth in real personal income will average 3.0 percent per year over the next five years, and growth in employment will average 0.8 percent per year over the same time span. These expectations contrast with an average of 3.6 percent for U.S. real personal income growth and an average of 1.1 percent for U.S. employment growth.

Chart I.13
Wisconsin Economic Growth
Real Personal Income and Employment



Recent Evidence

This forecast was prepared prior to the release of the newly revised Wisconsin employment data, and seasonally adjusted employment estimates are not yet available from the Bureau of Labor Statistics. Therefore, the employment projections in this forecast are based on the employment estimates available prior to the benchmark revision. We know that Wisconsin employment, as measured by the newly benchmarked Current Employment Survey, has been raised slightly for 2004 and 2005 (the December 2005 total nonfarm employment, not seasonally adjusted, was 0.4% higher than the previous estimate). Therefore the top line employment growth (total nonfarm employment) portrayed in the current forecast is not likely to change significantly with the incorporation of the newly benchmarked employment data. The levels of employment by industry are likely to be different, however, because revisions to individual industries may be greater than revisions to the total, with the total being the result of both positive and negative revisions. The newly revised employment estimates will be incorporated into the May 2006 *Wisconsin Economic Outlook* and will be analyzed in detail at that time.

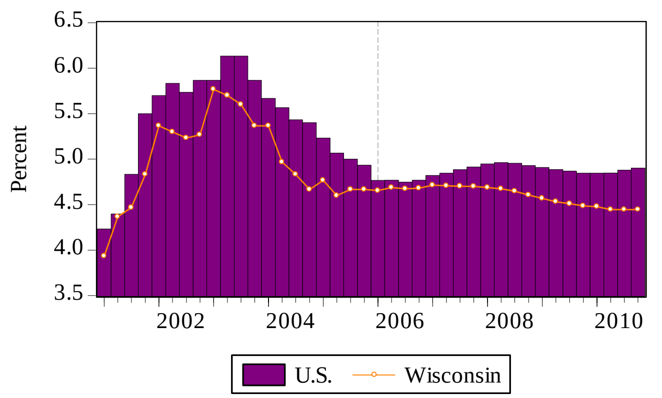
The Bureau of Economic Analysis (BEA) released preliminary estimates of personal income and components of personal income for the third quarter of 2005 for all states and regions in late December. The estimate of Wisconsin total personal income is $185.484 billion, a 2.0 percent increase (4.1 percent annualized) over the revised second quarter estimate of $183.641 billion.

Both total personal income and wages were revised down, the first quarter of 2005 by minor amounts and the second quarter of 2005 by more significant amounts. Personal income was revised down by $1.288 billion (0.7%) and wages were revised down by $0.933 billion (0.9%) in the second quarter. The downward revision to wages was not unexpected because wage withholding data from the Department of Revenue (DOR) did not support the initially higher wage estimate from BEA. Also, DOR's withholding data for the third quarter suggests that the BEA initial estimate for wages ($103.974 billion) is too low, and will be revised to a higher level when BEA issues new estimates of personal income for the fourth quarter of 2005 on March 28. For the current forecast wages and salaries in the third quarter of 2005 are assumed to be $106.261 billion ($2.287 billion higher than the BEA estimate) and total personal income is assumed to be $187.772 billion (also $2.287 billion higher than the BEA estimate).

Employment Outlook

Wisconsin nonfarm employment is expected to grow at a 0.6% annual rate in the first quarter of 2006, and gradually accelerate to 1.1% by the fourth quarter. Employment growth on an annual basis is expected to average 1.1% for the next three years. The Wisconsin unemployment rate will probably remain steady at 4.7% throughout the year as employment growth closely matches labor force growth. The unemployment rate in Wisconsin, currently below the unemployment rate in the nation by only a tenth of a percentage point, is expected to drift slightly lower over the next five years, while nationally, the unemployment rate is expected to rise to an average of 4.9 for the year 2007 to 2010.

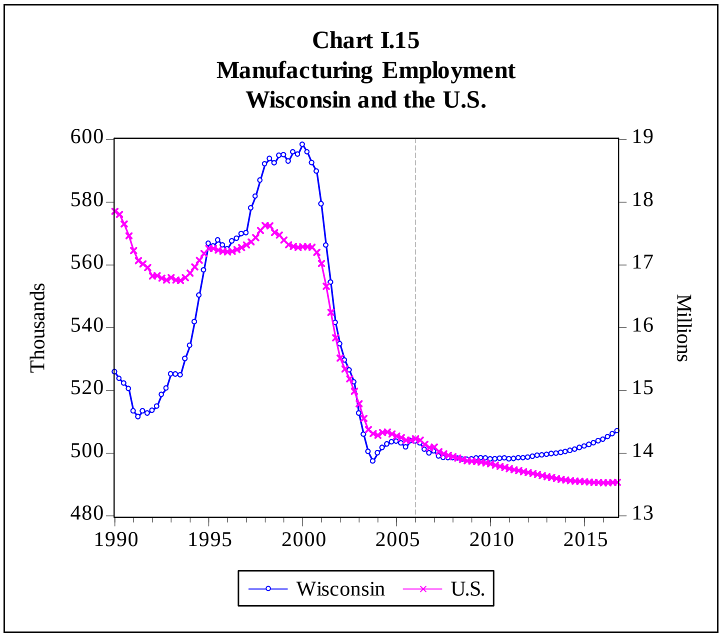
Chart I.14
Unemployment Rates
U.S. and Wisconsin



Industries that showed the most employment gains for 2005 (pre-benchmark data) were Construction (4.4%), Education and Health Services (2.0%), Professional and Business Services (1.6%) and Leisure and Hospitality Services (1.6%). Business and Professional Services and Health Services are expected to be the industries that provide the most employment growth in 2006.

Manufacturing employment in Wisconsin showed a small gain in 2005, up by 0.2%, but is expected to diminish in size over the next three years so that manufacturing employment trends are essentially flat. In the U.S., manufacturing employment declined by 0.6% in 2005. Thus, Wisconsin manufacturing industries have maintained a slight growth advantage over the U.S. and are expected to continue to do so in the forecast period. The number of manufacturing jobs is expected to average 498,200 in 2010, and 502,900 in 2015. Manufacturing jobs in Wisconsin and the U.S. from 1990 to 2016 are shown in Chart I.13.

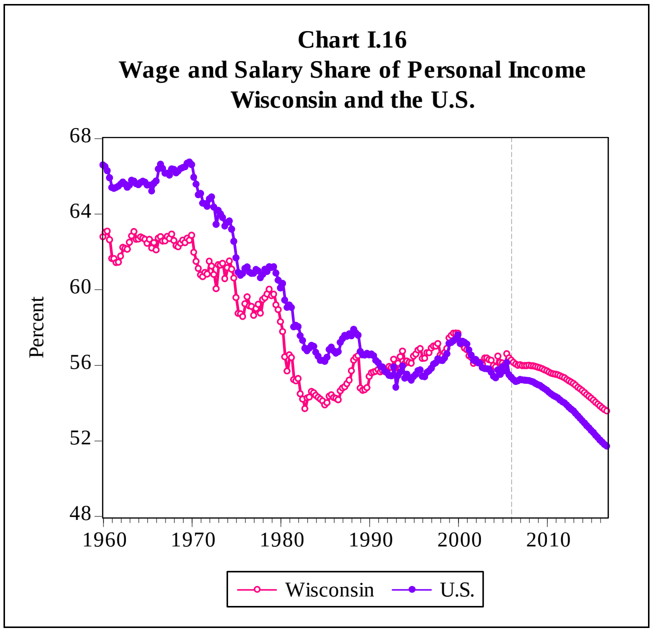
Details of the Wisconsin employment forecast are presented in Appendices 2 and 3.



Income Outlook

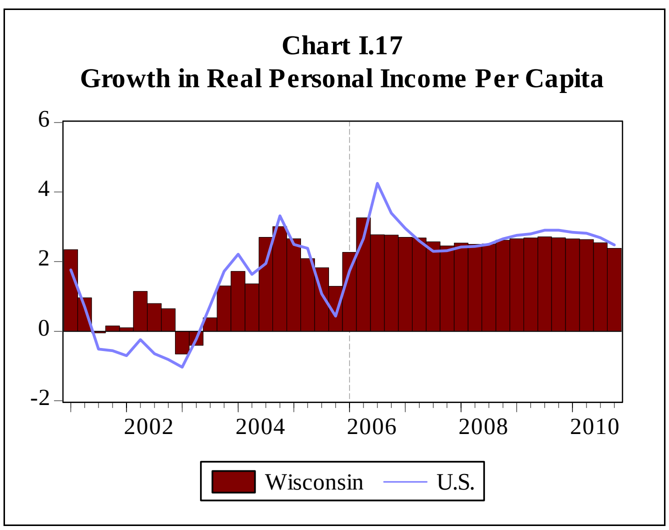
Total personal income is forecasted to grow at a 6.0% annual rate in the fourth quarter of 2005, followed by a 4.4% annual rate of growth in the January through March period of 2006. Translated into year-over-year growth, that is 4.8% in the fourth quarter of 2005 and 5.6% in the first quarter of 2006. Growth in Wisconsin personal income for all of 2005 is expected to be 5.4%, followed by growth of 5.5% in 2006. The average annual rate of growth in total personal income is expected to be 5.0% from 2006 through 2010.

The wage share of total personal income is expected to resume its long term downward trend for both Wisconsin and the U.S. in the next ten years, as shown in Chart I.14. Wisconsin's wage share of personal income actually reversed the predominant trend during the 1980s and the 1990s, while the national wage share of personal income only reversed trend during the later half of the 1990s. Wisconsin's wage share of personal income is currently 56.4% after have been as high as 63% in the early 1960s. Wisconsin's wage share of personal income is projected to fall 2.5 percentage points to 53.9% by 2015, while the national wage share of personal income is projected to fall over three percentage points from 55.5% to 52.2%.



On a per capita basis, real income in Wisconsin is forecast to increase by 2.8% in 2006 and by 2.6% in 2007, after a relatively weak performance (2.0%) in 2005. Wisconsin per capita incomes are expected to remain above 98% of the U.S. average for the next five years.

Details of the Wisconsin income forecast are presented in Appendices 4 and 5.



APPENDICES

APPENDIX 1
U.S. ECONOMIC FORECAST - GLOBAL INSIGHT

	2004	2005	2006	2007	2008	2009	2010
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)							
Gross Domestic Product	10755.7	11131.1	11494.2	11807.9	12153.0	12540.3	12911.2
% Change	4.2	3.5	3.3	2.7	2.9	3.2	3.0
Consumption	7588.6	7858.1	8123.9	8335.5	8566.6	8835.9	9115.8
% Change	3.9	3.6	3.4	2.6	2.8	3.1	3.2
Investment (Incl. Inventory)	1809.9	1915.6	2018.4	2070.2	2104.8	2172.8	2237.7
% Change	11.9	5.8	5.4	2.6	1.7	3.2	3.0
Nonresidential Structures	248.4	253.1	273.3	296.0	292.9	296.7	299.9
% Change	2.2	1.9	8.0	8.3	-1.1	1.3	1.1
Business Equipment	947.6	1049.8	1148.3	1225.1	1291.1	1366.6	1437.8
% Change	11.9	10.8	9.4	6.7	5.4	5.9	5.2
Residential Fixed	561.8	602.2	583.1	547.5	534.1	523.9	527.3
% Change	10.3	7.2	-3.2	-6.1	-2.4	-1.9	0.6
Inventory Change	52.0	17.2	31.8	31.8	31.4	45.2	44.3
Exports	1117.9	1193.3	1268.5	1377.9	1514.0	1654.4	1779.6
% Change	8.4	6.7	6.3	8.6	9.9	9.3	7.6
Imports	1719.2	1825.2	1938.8	2025.5	2098.8	2212.0	2332.6
% Change	10.7	6.2	6.2	4.5	3.6	5.4	5.5
Federal Government	723.7	738.4	759.2	767.3	773.9	779.5	787.9
% Change	5.2	2.0	2.8	1.1	0.9	0.7	1.1
State and Local Government	1228.4	1246.5	1262.4	1286.0	1302.6	1326.7	1345.9
% Change	0.4	1.5	1.3	1.9	1.3	1.9	1.4
GDP (Current Dollars)	11734.3	12479.5	13224.8	13842.2	14530.5	15303.7	16072.7
% Change	7.0	6.4	6.0	4.7	5.0	5.3	5.0
Employment, Unemployment, Wages and Prices							
Nonfarm Employment (Millions)	131.4	133.5	135.5	137.4	139.0	140.4	141.6
% Change	1.1	1.5	1.5	1.4	1.1	1.1	0.8
Unemployment Rate (%)	5.5	5.1	4.8	4.9	4.9	4.9	4.9
Compensation per Hour (% Change)	4.5	5.1	3.5	3.8	4.0	4.1	4.2
Consumer Price Index (% Change)	2.7	3.4	2.5	1.8	2.0	1.9	1.9
Producer Price Index (% Change)	6.2	7.3	3.8	0.2	0.0	-0.1	-0.2
GDP Price Deflator (% Change)	2.6	2.8	2.6	1.9	2.0	2.1	2.0
Industrial Production (% Change)	4.1	3.1	3.5	2.6	2.3	3.0	2.7
Financial Markets							
Money Supply (M2) ($ Billions)	6277.9	6544.2	6717.4	6942.4	7236.1	7543.5	7896.1
% Change	4.5	4.2	2.6	3.3	4.2	4.2	4.7
Prime Commercial Rate (%)	4.3	6.2	7.7	7.8	7.8	8.0	8.2
Three Month Treasury Bills (%)	1.4	3.1	4.5	4.6	4.6	4.9	5.0
Ten-Year Treasury Note Yield (%)	4.3	4.3	4.8	5.0	5.3	5.6	5.8
General Obligation AAA Municipals (%)	4.5	4.3	4.8	5.0	5.3	5.6	5.8
Thirty-Year Mortgage Rate (%)	5.8	5.9	6.4	6.5	6.9	7.2	7.4
S&P 500 Stock Index	1130.6	1207.1	1274.6	1295.1	1378.5	1462.8	1562.2
Income, Profits and Savings							
Personal Income ($ Billions)	9713.3	10238.2	10871.0	11460.4	12094.3	12790.8	13508.3
% Change	5.9	5.4	6.2	5.4	5.5	5.8	5.6
Personal Income ($ 2000) ($ Billions)	8972.5	9198.6	9561.2	9890.9	10227.1	10609.3	10990.6
% Change	3.3	2.5	3.9	3.4	3.4	3.7	3.6
Savings Rate (%)	1.7	-0.5	-0.1	0.3	0.8	1.0	1.1
Corporate Profits Before Tax ($ Billions)	1161.5	1343.1	1539.6	1526.0	1531.6	1570.3	1596.1
% Change	12.6	15.6	14.6	-0.9	0.4	2.5	1.6

APPENDIX 2
WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History			Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010
Total Nonfarm	2775.3	2804.1	2829.3	2859.6	2890.3	2920.7	2942.8	2958.7
% Change	-0.3	1.0	0.9	1.1	1.1	1.1	0.8	0.5
Private Nonfarm	2362.4	2392.2	2415.6	2441.0	2469.7	2498.5	2518.5	2531.8
% Change	-0.2	1.3	1.0	1.1	1.2	1.2	0.8	0.5
Natural Resources & Mining	3.8	3.8	3.5	3.6	3.8	3.8	3.8	3.8
% Change	-1.5	0.7	-6.4	2.7	3.4	1.3	0.3	-0.2
Construction	124.1	126.2	131.8	132.4	131.5	130.6	129.0	127.1
% Change	0.0	1.8	4.4	0.5	-0.7	-0.7	-1.2	-1.5
Manufacturing	504.1	502.0	503.1	502.0	499.1	498.1	498.3	498.2
% Change	-4.6	-0.4	0.2	-0.2	-0.6	-0.2	0.0	0.0
Trade, Transportation & Utilities	536.3	540.1	540.2	542.1	547.4	552.4	553.5	552.5
% Change	-0.1	0.7	0.0	0.3	1.0	0.9	0.2	-0.2
Information	50.3	50.0	50.5	50.7	51.4	52.1	52.5	52.9
% Change	-1.6	-0.8	1.0	0.4	1.5	1.3	0.8	0.6
Financial Activities	156.9	157.6	158.2	159.9	162.6	164.8	166.2	167.7
% Change	2.0	0.5	0.4	1.1	1.7	1.3	0.9	0.9
Professional & Business Services	244.4	250.5	254.4	263.0	269.1	274.7	278.9	280.7
% Change	1.9	2.5	1.6	3.4	2.3	2.1	1.6	0.6
Education & Health Services	364.6	376.2	383.9	393.4	406.7	420.5	432.4	442.2
% Change	2.1	3.2	2.0	2.5	3.4	3.4	2.8	2.3
Leisure & Hospitality	245.5	250.5	254.6	257.2	258.5	261.1	263.9	267.1
% Change	2.1	2.1	1.6	1.0	0.5	1.0	1.1	1.2
Other Services	132.7	135.3	135.3	136.7	139.4	140.2	140.0	139.7
% Change	0.3	2.0	0.0	1.1	2.0	0.6	-0.2	-0.2
Government	412.8	411.9	413.8	418.5	420.6	422.2	424.2	427.0
% Change	-0.5	-0.2	0.5	1.1	0.5	0.4	0.5	0.6
Federal Government	29.8	29.5	29.2	29.3	29.5	29.6	29.8	31.0
% Change	-0.3	-1.1	-1.0	0.2	0.9	0.4	0.4	4.2
State & Local Government	383.0	382.4	384.6	389.3	391.1	392.6	394.5	395.9
% Change	-0.5	-0.2	0.6	1.2	0.5	0.4	0.5	0.4

Household Survey Employment Measures

	2003	2004	2005	2006	2007	2008	2009	2010
Labor Force	3068.7	3071.2	3050.8	3063.1	3093.4	3120.6	3138.9	3153.3
% Change	1.0	0.1	-0.7	0.4	1.0	0.9	0.6	0.5
Employment	2896.7	2919.2	2907.8	2919.9	2947.8	2975.4	2996.9	3012.9
% Change	0.7	0.8	-0.4	0.4	1.0	0.9	0.7	0.5
Unemployment Rate (%)	5.6	5.0	4.7	4.7	4.7	4.7	4.5	4.5

APPENDIX 3

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4
Total Nonfarm	2815.2	2825.0	2831.8	2845.3	2849.9	2855.5	2862.4	2870.5
% Change	-0.1	1.4	1.0	1.9	0.6	0.8	1.0	1.1
Private Nonfarm	2400.8	2414.0	2418.3	2429.2	2432.4	2437.3	2443.5	2451.0
% Change	-0.3	2.2	0.7	1.8	0.5	0.8	1.0	1.2
Natural Resources & Mining	3.4	3.7	3.5	3.5	3.6	3.6	3.7	3.7
% Change	-25.9	30.1	-13.8	-3.7	6.0	7.3	4.8	4.2
Construction	130.1	132.9	131.6	132.5	132.6	132.5	132.3	132.1
% Change	14.4	8.7	-3.9	3.0	0.1	0.0	-0.6	-0.6
Manufacturing	503.7	503.1	501.8	503.9	503.8	503.1	501.1	499.9
% Change	0.1	-0.4	-1.0	1.7	-0.1	-0.5	-1.6	-0.9
Trade, Transportation & Utilities	540.0	540.0	539.8	540.9	540.6	541.1	542.5	544.0
% Change	-2.5	0.0	-0.2	0.9	-0.2	0.3	1.1	1.1
Information	50.8	50.9	49.9	50.2	50.2	50.5	50.9	51.1
% Change	7.7	0.8	-7.6	1.9	0.2	2.6	3.0	1.7
Financial Activities	157.7	158.4	158.7	158.3	158.9	159.6	160.3	161.0
% Change	1.4	1.8	0.8	-1.0	1.6	1.8	1.7	1.8
Professional & Business Services	248.5	252.4	256.7	260.1	261.2	261.9	263.4	265.5
% Change	-5.5	6.5	7.0	5.3	1.7	1.2	2.3	3.2
Education & Health Services	382.5	383.3	383.0	386.8	389.0	392.0	394.8	397.9
% Change	1.9	0.9	-0.4	4.0	2.4	3.1	2.9	3.2
Leisure & Hospitality	249.2	254.9	257.0	257.3	257.5	257.1	257.0	257.3
% Change	-2.3	9.5	3.3	0.4	0.3	-0.7	-0.1	0.5
Other Services	134.8	134.3	136.3	135.7	135.1	135.8	137.5	138.5
% Change	-3.0	-1.3	5.9	-1.6	-2.0	2.3	4.9	3.0
Government	414.5	411.0	413.5	416.2	417.5	418.2	418.9	419.5
% Change	1.4	-3.3	2.4	2.6	1.3	0.6	0.6	0.6
Federal Government	29.4	29.1	29.1	29.1	29.1	29.2	29.3	29.4
% Change	0.5	-4.5	0.5	-0.5	-0.5	2.3	1.3	1.0
State & Local Government	385.0	381.9	384.4	387.1	388.5	389.0	389.5	390.1
% Change	1.6	-3.2	2.6	2.8	1.5	0.5	0.6	0.6

Household Survey Employment Measures

Labor Force	3066.7	3048.8	3035.6	3052.2	3053.6	3059.3	3065.6	3073.8
% Change	-0.2	-2.3	-1.7	2.2	0.2	0.8	0.8	1.1
Employment	2920.2	2907.8	2894.1	2909.1	2911.4	2915.9	2922.3	2929.9
% Change	-0.7	-1.7	-1.9	2.1	0.3	0.6	0.9	1.0
Unemployment Rate (%)	4.8	4.6	4.7	4.7	4.7	4.7	4.7	4.7

APPENDIX 4

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
($ Billions)

	History			Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010
Total Personal Income	167.586	176.636	186.088	196.249	206.069	216.514	227.486	238.723
% Change	2.6	5.4	5.4	5.5	5.0	5.1	5.1	4.9
Wages and Salaries	94.363	99.120	104.707	110.092	115.345	121.137	126.959	132.718
% Change	3.0	5.0	5.6	5.1	4.8	5.0	4.8	4.5
Supplements to Wages and Salaries	23.152	24.985	26.578	27.731	28.730	29.878	31.072	32.411
% Change	9.0	7.9	6.4	4.3	3.6	4.0	4.0	4.3
Proprietor's Income	10.372	11.390	12.110	12.746	13.155	13.651	14.240	14.866
% Change	3.1	9.8	6.3	5.2	3.2	3.8	4.3	4.4
Rental Income	2.391	2.456	1.844	1.729	2.053	2.424	2.745	3.000
% Change	-15.0	2.7	-24.9	-6.2	18.7	18.1	13.3	9.3
Personal Dividend Income	8.237	9.754	10.258	11.450	12.607	13.097	13.632	14.241
% Change	3.0	18.4	5.2	11.6	10.1	3.9	4.1	4.5
Personal Interest Income	16.996	16.776	17.574	18.795	19.500	20.742	22.429	24.100
% Change	-3.0	-1.3	4.8	6.9	3.8	6.4	8.1	7.4
Current Transfer Receipts	23.542	24.298	25.639	26.864	28.386	29.887	31.271	32.749
% Change	2.2	3.2	5.5	4.8	5.7	5.3	4.6	4.7
Residence Adjustment	2.988	3.098	3.254	3.455	3.704	3.977	4.260	4.554
% Change	2.4	3.7	5.0	6.2	7.2	7.4	7.1	6.9
Contributions to Government Social Ins.	14.454	15.240	15.877	16.612	17.413	18.278	19.122	19.917
% Change	3.6	5.4	4.2	4.6	4.8	5.0	4.6	4.2
Personal Tax & Nontax Payments	18.795	19.552	21.984	23.279	25.260	26.387	28.146	30.041
% Change	-3.7	4.0	12.4	5.9	8.5	4.5	6.7	6.7
Disposable Personal Income	148.791	157.084	164.104	172.970	180.809	190.127	199.341	208.682
% Change	3.5	5.6	4.5	5.4	4.5	5.2	4.8	4.7

Related Income Measures

Personal Income (2000 $) ($ Billions)	158.815	163.165	167.186	172.605	177.849	183.089	188.689	194.231
% Change	0.7	2.7	2.5	3.2	3.0	2.9	3.1	2.9
Per Capita Income (2000 $)	29,301	29,945	30,533	31,379	32,194	33,011	33,895	34,763
% Change	0.2	2.2	2.0	2.8	2.6	2.5	2.7	2.6
Per Capita Income ($)	30,919	32,418	33,985	35,677	37,303	39,038	40,865	42,727
% Change	2.1	4.8	4.8	5.0	4.6	4.7	4.7	4.6
Per Capita Income as a Percent of U.S.	98.3	98.2	98.6	98.3	98.4	98.4	98.3	98.1

APPENDIX 5

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE ($ Billions)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History			Forecast				
	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4
Total Personal Income	182.400	183.640	187.772	190.539	192.615	194.944	197.421	200.015
% Change	1.3	2.7	9.3	6.0	4.4	4.9	5.2	5.4
Wages and Salaries	102.319	102.853	106.261	107.396	108.350	109.428	110.629	111.960
% Change	1.0	2.1	13.9	4.3	3.6	4.0	4.5	4.9
Supplements to Wages and Salaries	26.193	26.348	26.726	27.044	27.334	27.612	27.885	28.094
% Change	7.8	2.4	5.9	4.8	4.4	4.1	4.0	3.0
Proprietor's Income	12.064	11.898	12.145	12.335	12.521	12.686	12.852	12.925
% Change	21.8	-5.4	8.6	6.4	6.2	5.4	5.3	2.3
Rental Income	2.180	1.950	1.521	1.725	1.654	1.696	1.740	1.827
% Change	-21.2	-36.0	-63.0	65.4	-15.4	10.4	10.9	21.4
Personal Dividend Income	9.832	10.078	10.412	10.710	10.976	11.258	11.590	11.975
% Change	-45.9	10.4	14.0	11.9	10.3	10.7	12.3	14.0
Personal Interest Income	16.999	17.387	17.738	18.171	18.508	18.722	18.908	19.041
% Change	12.4	9.4	8.3	10.1	7.6	4.7	4.0	2.8
Current Transfer Receipts	25.361	25.710	25.623	25.862	26.323	26.665	27.030	27.436
% Change	11.3	5.6	-1.3	3.8	7.3	5.3	5.6	6.1
Residence Adjustment	3.226	3.214	3.259	3.316	3.368	3.424	3.483	3.545
% Change	5.0	-1.5	5.7	7.2	6.4	6.8	7.1	7.4
Contributions to Government Social Ins.	15.774	15.798	15.915	16.019	16.418	16.548	16.696	16.787
% Change	4.6	0.6	3.0	2.6	10.3	3.2	3.6	2.2
Personal Tax & Nontax Payments	21.379	21.621	22.354	22.583	22.701	23.088	23.469	23.857
% Change	23.6	4.6	14.3	4.2	2.1	7.0	6.8	6.8
Disposable Personal Income	161.021	162.019	165.418	167.956	169.913	171.856	173.952	176.158
% Change	-1.3	2.5	8.7	6.3	4.7	4.7	5.0	5.2

Related Income Measures

Personal Income (2000 $) ($ Billions)	165.915	165.692	167.884	169.254	170.457	171.913	173.323	174.726
% Change	-0.9	-0.5	5.4	3.3	2.9	3.5	3.3	3.3
Per Capita Income (2000 $)	30,356	30,278	30,642	30,856	31,040	31,270	31,492	31,712
% Change	-1.4	-1.0	4.9	2.8	2.4	3.0	2.9	2.8
Per Capita Income ($)	33,372	33,558	34,272	34,737	35,075	35,459	35,870	36,302
% Change	0.8	2.3	8.8	5.5	4.0	4.5	4.7	4.9
Per Capita Income as Percent of U.S. (%)	98.0	97.7	99.6	98.9	98.5	98.3	98.2	98.3

II. REVENUE COLLECTIONS REPORT

REVENUE COLLECTIONS THROUGH JANUARY 2006

Introduction

State General Purpose Revenue (GPR) tax collections reported by DOR during the first seven months of FY 2006 increased 6.2% over the comparable period of FY 2005 from $6,299.1 million to $6,689.3 million. During this period, individual income tax receipts increased 8.3% to $3,670.2 million, sales tax revenue increased 4.3% to $2,152.6 million, and corporate collections increased 3.6% to $382.3 million.

Tax collections for the first seven months of FY 2006 are summarized in Table II.1.

Individual Income Tax

Individual income tax collections during the first seven months of FY 2006 increased 8.3% to $3,670 million from $3,389.6 million in FY 2005. The largest component of the individual income tax collections is withholding. Through January, withholding payments were up 7.8% as compared to a year ago from $2,915.8 million to $3,143.4 million. However, this increase is driven in part by the accruals corrections for FY 2004 and FY 2005. After adjusting for these corrections, withholding collections to date increased 6.2% over FY 2005, and total individual income tax collections increased 6.9 % over last year's levels.

Estimated payments made through January increased 9.9% from $513.2 million to $563.7 million.

General Sales and Use Tax

Sales tax collections for the first seven months of FY 2006 increased 4.3% over the comparable period of FY 2005 from $2,063.2 million to $2,152.6 million.

Corporation Franchise and Income Tax

For the first seven months of FY 2006, collections increased 3.6% from $369.2 million to $382.3 million.

The largest source of corporate income tax payments, declaration payments, increased 6.3% from $343.3 million in FY 2005 to $365 million this year.

Public Utility Taxes

Utility tax collections for the first seven months of FY 2006 decreased to $122 million from $131.5 million in FY 2005. May and November account for most of the utility collections. The decrease is in large part due to the decrease in telephone collections due to changes in the industry and tax calculation:

- New equipment is more efficient and less expensive than the old one
- Faster depreciation schedules and reduced value of unused fiber optic cable
- Changes in assessment methodologies and use of the average municipal rate instead of school district rate.

Excise Taxes

Cigarette tax collections during the first seven months of FY 2006 increased 2.1% from $151.5 million to $154.6 million.

Tobacco products tax collections through January have increased 2.7% from $7.96 million to $8.19 million.

Liquor and wine collections increased 7.6% for the first seven months of FY 2006 from $20.5 million to $22.1 million.

Beer tax collections through January have increased 2.4% from $4.8 million to $4.91 million.

Estate Taxes

Estate tax collections during the first seven months of FY 2006 have increased 10.5% from $61.4 million to $70.9 million. Collections from this tax source are highly volatile.

Insurance Company Taxes

Insurance company tax collections increased 9.4% from $59.3 million to $64.9 million.

Real Estate Transfer Fee

Real estate transfer fee collections have increased 7.5% from $40.2 million to $43.2 million.

TABLE II.1
COMPARISON OF JULY-JANUARY DEPARTMENT OF REVENUE
ACTUAL TAX RECEIPTS
($ Millions)

Tax Sources	**First Seven Months of:**		**% Change**
	FY 2005	**FY 2006**	
Individual Income	3,389.6	3,670.2	8.3%
General Sales Tax	2,063.2	2,152.6	4.3%
Corporation Franchise & Income	369.2	382.3	3.6%
Excise			
Cigarette	151.5	154.6	2.1%
Liquor	20.5	22.1	7.6%
Tobacco	8.0	8.2	2.7%
Beer	4.8	4.9	2.4%
Public Utility	131.4	122.0	-7.2%
Inheritance, Estate & Gift	61.4	70.9	15.5%
Insurance	59.3	64.9	9.4%
Real Estate Transfer	40.2	43.2	7.5%
Total	6,299.1	6,689.3	6.2%

Note: Detail may not add to totals because of rounding, and percent changes were calculated before rounding